

Message Text

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PAGE 01 CAIRO 16877 081350Z

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ACTION NEA-10

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FM AMEMBASSY CAIRO

TO SECSTATE WASHDC 9512

INFO AMEMBASSY ABU DHABI

AMEMBASSY BONN

AMEMBASSY JIDDA

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AMEMBASSY LONDON

AMEMBASSY TEHRAN

AMEMBASSY TOKYO

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TAGS: EFIN, EG

SUBJECT: NEW GOE FX REGULATIONS

REF: CAIRO 16646

1. FOLLOWING ARE SALIENT POINTS OF CHAPTER ONE
OF RECENTLY-ENACTED FX REGULATIONS ISSUED BY MINECON
(REFTEL), BASED ON INITIAL READING (IN ARABIC) BY EMBASSY
AND SUMMARY IN-HOUSE INTERPRETATION PROVIDED US BY CHASE
NATIONAL BANK. CHAPTERS TWO THROUGH FIVE, ALTHOUGH NOT YET
AVAILABLE IN TRANSLATION, REPORTEDLY CONCERN DETAILED
ADMINISTRATION OF TRADE AND CAPITAL TRANSACTIONS UNDER NEW
LAW.

2. ECHOING LAW, REGULATIONS SPECIFY THAT INDIVIDUALS AND,
BY EXTENSION, VARIOUS LEGAL ENTITIES (EVIDENTLY ONLY IN
PRIVATE SECTOR) ARE PERMITTED TO HOLD FOREIGN EXCHANGE
NOT REPEAT NOT EARNED FROM EXPORT TRADE OR TOURISM.
HOLDINGS MAY BE ABROAD OR WITHIN EGYPT; INDIVIDUALS HAVE
OPTION OF RETAINING FX IN PERSONAL POSSESSION OR IN BANK

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PAGE 02 CAIRO 16877 081350Z

ACCOUNT DENOMINATED IN FOREIGN CURRENCY OR CONVERTIBLE

EGYPTIAN POUNDS.

3. THREE CATEGORIES OF ACCOUNTS ARE ALLOWED UNDER NEW RULES, DEPENDING ON SOURCE AND INTENDED USE OF FX FUNDS: A) CONVERTIBLE FOREIGN CURRENCY ACCOUNTS, B) SPECIAL FOREIGN CURRENCY ACCOUNTS, AND C) CONVERTIBLE LE ACCOUNTS (OFFICIAL AND PARALLEL MARKET). CONVERTIBLE FX AND CONVERTIBLE LE ACCOUNTS (A AND C ABOVE) APPEAR TO BE SIMILARLY-DESIGNED FOR INWARD AND OUTWARD TRANSFERS OF FX, WITH PRINCIPAL DIFFERENCE BEING DENOMINATION OF CURRENCY. SPECIAL FX ACCOUNT (B) EVIDENTLY IS FOR PURPOSE OF LIBERALIZING CONTROLS ON BUSINESS AND TRAVEL TRANSACTIONS BY EGYPTIAN HOLDERS OF FX: ACCOUNT PERMITS DEPOSITS OF BANKNOTES WITHOUT CUSTOMS DECLARATION AND DIRECT TRANSFER FROM CONVERTIBLE ACCOUNTS; ACCOUNT MAY BE USED TO FINANCE IMPORTS, TO COVER EXPENSES OF TRAVELLERS ABROAD UP TO LE 2000 EQUIVALENT PER FAMILY PER YEAR AND FOR LOCAL FX PAYMENTS.

4. NON-RESIDENT QUOTE C UNQUOTE ACCOUNTS, ORIGINALLY SET UP FOR SETTLEMENT OF CERTAIN AVIATION/TOURISM-RELATED TRANSACTIONS BUT NOW VIRTUALLY DISUSED, ARE TO BE PHASED OUT. OTHER ACCOUNTS HERETOFORE MAINTAINED IN BANKING SYSTEM ARE REDESIGNATED AS FOLLOWS: EXTERNAL NON-RESIDENT FX ACCOUNTS, NOW DESIGNATED CONVERTIBLE FX ACCOUNTS; NON-RESIDENT CONVERTIBLE ACCOUNTS, NOW CONVERTIBLE LE ACCOUNTS - OFFICIAL MARKET; NON-RESIDENT TRANSFERABLE ACCOUNTS, NOW CONVERTIBLE LE ACCOUNTS - PARALLEL MARKET; FOREIGN CURRENCY ACCOUNTS - PARALLEL MARKET (EXPORT AND TOURISM RECEIPTS), NOW FOREIGN CURRENCY ACCOUNTS - SPECIFIED CURRENCIES.

5. NATIONAL BANK OF EGYPT, BANK MISR, BANQUE DU CAIRO, CHASE NATIONAL BANKS ARE DESIGNATED QUOTE AUTHORIZED BANKS UNQUOTE FOR GENERAL FX TRANSACTONS, AND MISR COMPANY FOR TOURISM, THOMAS COOK AND AMERICAN EXPRESS ARE AUTHORIZED TO DEAL IN FX FOR TOURISM AND TRAVEL PURPOSES. CENTRAL BANK IS RESPONSIBLE FOR SUPERVISION OF AUTHORIZED BANKS' ACTIVITIES.

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PAGE 03 CAIRO 16877 081350Z

6. AUTHORIZED BANKS WILL SURRENDER DAILY TO CENTRAL BANK PROCEEDS OF FX EARNINGS FROM OFFICIAL MARKET. TRANSACTIONS THROUGH PARALLEL MARKET WILL COVER INVISIBLE EARNINGS AND PAYMENTS EXCEPT THOSE RELATED TO SUEZ CANAL FEES, SHIPPING ACCOUNTS, FOREIGN INVESTMENT, INTERNATIONAL OBLIGATIONS, REINSURANCE PREMIUMS AND PENSION TRANSFERS. OFFICIAL FX RATE WILL APPLY TO DRAWINGS OF INTERNATIONAL ORGANIZATIONS (PRESUMABLY INCLUDING EMBASSIES) AND OFFICES

OF FOREIGN ORGANIZATIONS AND COMPANIES. ACCORDING
REGULATIONS, FX EARNINGS TO INDIVIDUALS FROM THESE
DRAWINGS WILL BE AT PARALLEL MARKET RATE.

7. AUTHORIZED BANKS CAN BUY AND SELL GOLD TO ACCOUNT OF
CUSTOMERS AND CAN IMPORT OR EXPORT FOREIGN CURRENCY AND
COINS, APPARENTLY WITHOUT PERMIT REQUIREMENT.

8. REGULATIONS ESTABLISH TEN-MEMBER FOREIGN EXCHANGE
COMMITTEE COMPOSED OF REPRESENTATIVES FROM GOE MINISTRIES,
CENTRAL BANK AND TWO AUTHORIZED FX BANKS. COMMITTEE WILL
MONITOR EXCHANGE RATE AND CONDUCT STUDIES ON BOP AND
PARALLEL MARKET ACTIVITIES.

9. COMMENT: NOT EVEN OUTLINE OF HOW REVISED FX RULES
WILL WORK IS YET COMPLETELY CLEAR. NATIONAL BANK OF
EGYPT DIRECTOR GENERAL COMMENTED TO US THAT FX SYSTEM,
IN EFFECT, WILL BE WIDE OPEN IN MANNER OF BEIRUT PRIOR TO
CIVIL WAR. HE SAID NATIONAL BANK WILL INTERPRET REGULA-
TIONS IN FASHION TO PERMIT OPENING OF FX ACCOUNTS WITH
NO QUESTIONS ASKED, NOT ONLY BY PRIVATE INDIVIDUALS AND
BUSINESSES, BUT BY PUBLIC SECTOR ENTITIES, AS WELL.

10. THIS VERY POSSIBILITY OF A WIDE OPEN SYSTEM DISTURBS
IMF REPRESENTATIVES. THEY HAVE EXPRESSED TO US THEIR CONCERN
OVER NEW REGULATIONS AND IMPACT THEY MIGHT HAVE ON ECONOMY IN
TERMS OF CAPITAL OUTFLOW (CF. REFTEL COMMTNET),#
CHARACTERIZING CHANGE IN FX CONTROLS
AS ILL-CONCEIVED AND POORLY EXECUTED.

IMF REPORTEDLY HAS ALREADY EXTRACTED AGREEMENT FROM
MINECON SAYEH THAT FURTHER AMENDMENTS AND ADDITIONS MAY
BE ISSUED AFTER FUND HAS OPPORTUNITY TO STUDY SUBJECT
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PAGE 04 CAIRO 16877 081350Z

AND MAKE RECOMMENDATIONS.

11. DESPITE UNCERTAINTIES IN GOE POLICY INTENT AND
INTERPRETATIVE AMBIGUITIES, LAW AND IMPLEMENTING
REGULATIONS AS WRITTEN SEEM TO US BASICALLY AIMED AT
MOBILIZING FX HOLDINGS OF EGYPTIANS AND STIMULATING
TRADE AND FINANCE BY SANCTIONING CERTAIN KINDS OF TRANS-
ACTIONS HERETOFORE ILLEGAL (ALTHOUGH WIDELY CONDUCTED,
ESPECIALLY THROUGH JOINT VENTURE BANKS DURING PAST YEAR
OR TWO). FOREIGN PRIVATE INVESTMENT QUESTIONS REMAIN
LARGELY UNADDRESSED BY FX MODIFICATION AND WILL HAVE
TO AWAIT AMENDMENTS TO LAW 43 REPORTEDLY UNDER STUDY BY
GOE. GENERAL THRUST OF NEW FX MEASURES NONETHELESS
OBVIOUSLY IS SIGNIFICANT MOVE AWAY FROM RIGID CONTROLS
PREVAILING IN ECONOMY FOR PAST DECADE OR MORE, ALMOST

REGARDLESS OF CHAPTER AND VERSE OF FORMAL IMPLEMENTING
PROCEDURES BEING ESTABLISHED.
EILTS

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